



NAB PM

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AT 29/11

Treasury Chambers, Parliament Street, SW1P 3AG
 The Rt Hon Paul Channon MP
 Minister for Trade
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1H 0ET

28 November 1984

Paul Channon

EXPORT PROMOTION

I have seen Norman Tebbit's paper on this, circulated to EX colleagues with his Private Secretary's letter of 30 August. I note that the Prime Minister has asked for further work to be done on the effectiveness of export promotion expenditure, and I am glad to see that you have mounted a special study of the cost effectiveness of the BOTB.

One test of this will be the exporter's willingness to pay for those services which can be directly identified and charged out to him: this applies both to the BOTB and the FCO. At present, across the BOTB services for which charges are raised I think about 25 per cent of the Board's gross out-goings are recovered. There is surely a case for recovering much more than this - indeed the bulk of the full cost - while still leaving some inducements to first time users. This argument also applies to the FCO expenditure, and would apply a market test to both these activities.

In addition, I think that expenditure on export promotion through the BOTB should be put in the broader context of the overall support provided by the Government for exports. This comprises a number of different elements, but adds up to a sizeable sum:-

	Public Expenditure 1984-85 (current Estimates) £ million
Export Promotion (net) DTI and BOTB FCO	55 62
Interest Support	117
ATP	400
TOTAL*	66
	583

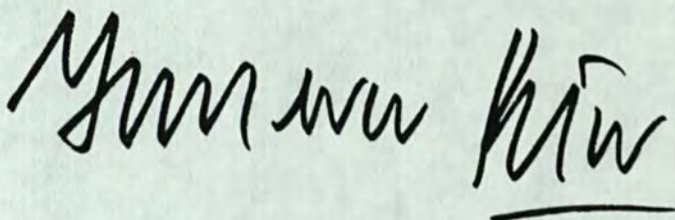
* excluding ECGD's contingent risks and the cost of meeting guarantees

The costs of interest support and ATP are concentrated on about 5 per cent of UK exports worth about £4½ billion a year. When EX Committee looks at your work on export promotion, it might consider whether the provision of subsidies on this scale for exports is justified and what might be done to reduce it. Given that some 95 per cent of exports (services and consumer goods) get little or no direct support, it might also consider whether it is right to provide such large subsidies for the narrow sectors of capital goods and defence equipment?

Overshadowing the cost of these subsidies are the enormous risks (now some £33 billion) carried by ECGD in the form of contingent liabilities for insured exports. Some £7-800 million of such liabilities have already crystallised on ECGD's balance sheet, and net claims paid (both buyer and political) are currently adding some £400 million to the PSBR. Not all of this will be recovered. In addition, the overall quality of ECGD's portfolio has been deteriorating as individual decisions over the past 2 years, each perhaps justifiable in isolation, have added to the proportion of risks in poor markets.

I therefore think that it would be helpful if, when EX Committee comes to consider export promotion, these wider issues could also be reviewed.

I am sending copies of this letter to Members of EX Committee and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES

Trade PT 4

Non-Tariff Barriers

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From the Minister for Trade

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
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1 SP ^{clw} to order
2 NBPM AT 12/12

12 December 1984

Dear Peter,

EXPORT PROMOTION

Thank you for your letter of 28 November. I am quite happy that the wider issues of export policy to which you refer should also be covered in the EX discussion of export promotion services. There are a few points in your letter on which I comment now to avoid misunderstanding.

BOTB Export Promotion Services

The DTI and the Treasury are in regular contact about charges for services. The figure of 25% for cost recovery mentioned in your letter is rather misleading. It takes no account of those services where the exporter first pays the total costs and subsequently receives a contribution from the BOTB. For example, in the Outward Mission Scheme the only support which a firm receives is a contribution of around 45% towards the air fare costs. This shows as zero recovery in the BOTB budget.

The Board has a general policy of not contributing more than about 50% of direct costs. Over the last few years it has made major increases in revenue from charges, and is now consulting industry about proposals to achieve 75% recovery of specified direct costs incurred at overseas trade fairs, with discounts for newcomers

ECGD

Despite its current problems, similar to those of its counterparts in other countries, ECGD's trading operations are conducted with the aim of no net loss over the years. They do not represent a continuing subsidy. As you know, the 1983 agreement on OECD consensus rates brought the cost of interest rate support under closer control. Subsidies in this area are expected to be reduced over the PES period.

The Aid and Trade Provision

You also mention support through the Aid and Trade Provision. Most bilateral aid benefits exports but ATP is particularly



effective. It commonly yields additional exports on normal commercial terms of three times the value of the aid given. The benefits go not just to the main contractors, but to the British sub-contractors and sub-sub-contractors down the line, many of them small companies. The £66m provision for ATP is modest compared with support provided by other countries such as France and Japan. With the Americans and others adopting or stepping up mixed credit practices, it is all the more important that we move constructively towards measures of limitation and control that could find international acceptance. My officials will be consulting other Departments on what steps might be taken.

I am sending copies of this reply to the Prime Minister and other members of EX Committee and to Sir Robert Armstrong.

Y
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PAUL CHANNON

Paul

Trade

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Non-Tariff Barriers

12 DEC 1984

